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Office of Inspector General  
Corporation for National and Community Service

**Semiannual Report to Congress  
for the period  
April 1, 2002 - September 30, 2002**

*Fiscal Year 2002  
Semiannual Report No. 2*

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Pursuant to the Inspector General Act of 1978, as amended, this report describes activities and accomplishments for the second half of the fiscal year. Section 5 of the Act requires that the Corporation's Chief Executive Officer submit this report to Congress and the Corporation's Board of Directors within thirty days of its receipt.

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**Office of Inspector General  
Corporation for National and Community Service  
1201 New York Avenue, NW., Suite 830  
Washington, DC 20525**

**Telephone (202) 606-5000, extension 390  
Facsimile (202) 565-2795  
Hotline (800) 452-8210**

# EXECUTIVE SUMMARY

## AUDIT SECTION

During this semiannual reporting period, the Office of Inspector General (OIG) issued eighteen (18) audit reports, for a total of twenty-eight (28) during the fiscal year. Summaries of all audit reports issued from April 1 to September 30, 2002, are on pages 9 and 10.

### *Financial Management*

The audit of the Corporation's fiscal year 2001 financial statements resulted in an unqualified opinion on the Statement of Financial Position as of September 30, 2001, and the related Statements of Operations and Changes in Net Position and Cash Flows for the year then ended. On July 1, 2002, OIG issued the Fiscal Year 2001 management letter in conjunction with the Corporation's Financial Statements Audit. The letter made fifteen (15) recommendations for various improvements in financial management.

### *Grant Management and Oversight*

The Office of Inspector General issued seven (7) State Commission audits during this period (Washington, Kentucky, Michigan, Alaska, New Jersey, New Hampshire, and Alabama). These audits resulted in questioned costs of approximately \$14.7 million (12.3 percent) of the \$119.6 million in costs claimed. Results of each State Commission audit are described on pages 2 through 4.

The Office of Inspector General also issued eight (8) pre-audit surveys of grants awarded to other entities in its continuing initiative to gather basic information about, and assess risk related to grantee compliance with grant provisions and oversight requirements. The results of these pre-audit surveys will be used to develop future audit plans and projects.

### *Information Systems*

In response to the requirements of the Government Information Security Reform Act and implementation of that statute by the Office of Management and Budget, OIG performed an independent evaluation of the Corporation's information security program. The assessment concluded that generally the Corporation has policies and procedures in place to safeguard the Corporation's critical information systems and databases.

## INVESTIGATIONS SECTION

During this reporting period OIG received and processed nineteen (19) Hotline contacts, opened nineteen (19) investigative actions, and completed twenty (20) investigative actions. Two (2) matters were referred to the Department of Justice for prosecution or civil enforcement. Five (5) matters were referred to management of the Corporation for disciplinary action, consideration for debarment, or other corrective action. Highlights of investigations closed during this period are presented on pages 11 through 13.

Also during this reporting period OIG received the last report of disciplinary action taken by Corporation management against the initial group of employees that were identified by the OIG as abusing the government travel card program. As a result of the OIG travel card abuse investigations, Corporation management dismissed five (5) employees, suspended eight (8) employees without pay, demoted and suspended without pay one (1) additional employee, gave written reprimands to eight (8) employees, counseled six (6) employees, allowed two (2) employees to resign, allowed three (3) employees to retire, and allowed one (1) employee's term of appointment to expire. While the initial employee travel card abuse investigations are

## *EXECUTIVE SUMMARY*

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now closed, we are continuing to monitor the travel card program to ensure that controls put in place by management are effective, that the controls are identifying travel card abusers, and that Corporation management is reviewing cases of identified abusers for appropriate action.

### **OUTREACH EFFORTS**

As part of our ongoing fraud prevention efforts, the Deputy Inspector General for Investigations and Operations provided three

(3) OIG presentations during this reporting period and the Assistant Inspector General for Investigations provided one (1). One presentation was to new Corporation employees and included the authority and responsibilities of the OIG. The remaining three (3) presentations were to staff members of the grantees and to Corporation Equal Opportunity counselors regarding defining fraud, a discussion of the frequently encountered types of fraud, and how to identify indicators of fraud.

# INSPECTOR GENERAL ACT REPORTING REQUIREMENTS

This table cross-references the reporting requirements prescribed by the Inspector General Act of 1978, as amended, to the specific pages in the report where they are addressed.

Requirement		Page
Section 4 (a)(2)	Review of legislation and regulations	14
Section 5 (a)(1)	Significant problems, abuses, and deficiencies related to the administration of Corporation programs and operations	Throughout
Section 5 (a)(2)	Recommendations with respect to significant problems, abuses, and deficiencies found in the administration of Corporation programs and operations	Throughout
Section 5 (a)(3)	Prior significant recommendations on which corrective action has not been completed	18
Section 5 (a)(4)	Matters referred to prosecutorial authorities	13
Section 5 (a)(5)	Summary of instances where information was refused	None this period
Section 5 (a)(6)	List of audit reports by subject matter showing dollar value of questioned costs and recommendations that funds be put to better use	1-4, 9, 10
Section 5 (a)(7)	Summary of significant reports	Throughout
Section 5 (a)(8)	Statistical table showing number of reports and dollar value of questioned costs	15
Section 5 (a)(9)	Statistical table showing number of reports and dollar value of recommendations that funds be put to better use	16
Section 5 (a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by end of reporting period	17
Section 5 (a)(11)	Significant revised management decisions	None this period
Section 5 (a)(12)	Significant management decisions with which the Inspector General disagrees	None this period

# AUDIT SECTION

The Office of Inspector General Audit Section is responsible for reviewing financial, administrative, and programmatic aspects of the operations of the Corporation for National and Community Service (the Corporation). It carries out these responsibilities by conducting the audit of the Corporation's annual financial statements, assessing the Corporation's management controls, auditing Corporation operations, and auditing individual grants, contracts, and cooperative agreements funded by the Corporation. All OIG audit reports are referred to Corporation management for action or information. A list of the reports issued by the Audit Section during this period can be found on pages 9 and 10.

## *FINANCIAL MANAGEMENT*

### ***Recommended Improvements to the Corporation's Internal Controls Fiscal Year 2001 – Management Letter (OIG Audit Report Number 02-02)***

The Government Corporation Control Act (31 U.S.C. 9101, *et seq.*) requires OIG to annually audit the Corporation's financial statements. OIG contracted with KPMG LLP to audit the Corporation's fiscal year 2001 statements. This audit, conducted in accordance with government auditing standards, resulted in an unqualified opinion on the Corporation's Statement of Financial Position as of September 30, 2001, and the related Statements of Operations, Changes in Net Position, and Cash Flows for the year then ended.

During their work, the auditors noted other matters involving the Corporation's internal controls that were not considered material weaknesses or reportable conditions. These conditions were reported in the management letter that was issued on July 1, 2002. The letter made fifteen (15) recommendations<sup>1</sup> in five (5) subject areas (grants management, national service trust, human resources, revenue from reimbursable agreements, and information technology).

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#### **<sup>1</sup> Recommended improvements to the Corporation's Internal Control:**

*Grants Management* – Oversight of OMB Circular A-133 reporting should be improved; oversight of grantee financial activity should be improved; grantee site visits should be improved; and the Corporation is not properly maintaining and utilizing the National Senior Service Corps (NSSC) Compliance Monitoring database.

*National Service Trust* – The process of reviewing Web-Based Reporting System (WBRS) Reconciliation Reports should be strengthened; member end-of-term forms are not always approved timely; the Corporation's methodology for calculating the Service Award Liability estimate needs to be reviewed; and certain members inappropriately received service awards.

*Human Resources* – Controls over payment of subsistence to VISTA members should be improved; VISTA member files are incomplete; and inaccurate information is entered into the VISTA Management System/System for Programs, Agreements, and National Service Participants (VMS/SPAN) for VISTA members.

*Revenue from Reimbursable Agreements* – Demand letters are not consistently sent on delinquent receivables; and the Corporation's methodology for aging receivables needs improvement.

*Information Technology* – Recommendations for continued improvements in the electronic processing of financial transactions and a lack of proper access controls for WBRS.

**GRANT MANAGEMENT AND OVERSIGHT**

The Corporation awards National and Community Service Act and Domestic Volunteer Service Act grants to State and local governments, State Commissions, institutions of higher education, and other not-for-profit organizations. Grantees are required, among other things, to expend funds only for allowable costs and to provide periodic reports to the Corporation to demonstrate programmatic and financial compliance with the terms of the respective grant agreements. The Corporation is responsible for ensuring that grantees comply with applicable laws and regulations related to the administration of grant awards, including those related to Federal cash management requirements.

The Office of Inspector General Audit Section performs audits of the Corporation's oversight of grantees and audits of specific grants to assess whether reported costs are allowable under Federal regulations and whether grantees are complying with the terms and conditions of the awards. Our reports on Corporation grants contain recommendations for correcting deficiencies identified in the reports. Typically, the recommendations are for the grantees to reimburse questioned costs and to establish and implement policies and procedures to prevent future instances of non-compliance and improve internal controls. We also make recommendations for increased oversight by the Corporation and improvements in the Corporation's grants management operations.

***State Commission Audits***

The Corporation, pursuant to the authority of the National and Community Service Act, as amended, awards grants and cooperative agreements to State Commissions, nonprofit entities, tribes and territories to assist in the creation of full- and part-time national and community service programs. Currently, in accordance with the Act's requirements, the Corporation awards approximately two-thirds of its AmeriCorps State and National funds to State Commissions. The State Commissions in turn fund and are responsible for the oversight of subgrantees who execute the programs. Through these subgrantees, AmeriCorps members perform service to meet educational, human, environmental, and public safety needs.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the Washington Commission for National and Community Service (OIG Audit Report Number 02-09)***

The Office of Inspector General retained Cotton and Company to audit Corporation grants to the Washington State Commission from January 24, 1994, through September 30, 2000. The audit identified questioned costs of \$374,240, and unsupported costs of \$1,068,575 out of the \$43,123,075 in total claimed costs during the audit period. Of the \$1,068,575 of unsupported costs, \$980,765 represented unreconciled differences between the Federal Cash Transaction Reports and the accounting system for three (3) 1994 grants. The report included eleven (11) recommendations to the Commission to address weaknesses in the areas of compliance and internal controls including recommendations to implement procedures to ensure that grantee cost allocation systems comply with the AmeriCorps provisions, to facilitate timely submission of Financial Status Reports, to strengthen the Commission's program monitoring procedures, and to retain source documentation for all journal entries and other adjustments to the Commission's accounting records. The auditors concluded that the Schedules of Award Costs presented fairly the costs claimed by the Commission, except for the questioned and unsupported costs identified in the report.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the Kentucky Commission on Community Volunteerism and Service (OIG Audit Report Number 02-10)***

The Office of Inspector General engaged KPMG LLP to audit Corporation grants to the Kentucky Commission and its subgrantees for the period from January 28, 1994, through December 31, 2000, for AmeriCorps, Learn and Serve, Administration, and Program Development and Training programs. The audit identified total questioned costs of \$5,587,955 (approximately 32.7 percent) out of claimed costs of more than \$17 million. A significant portion of the questioned costs (\$2,724,186) was due to the inability of subgrantees to provide supporting documentation, such as general ledgers and payroll records, because their record retention policies did not comply with requirements in the AmeriCorps provisions. The audit also identified a number of conditions relating to internal control over financial reporting that are characterized as material weaknesses. First, the report concluded that the Commission lacked adequate procedures for monitoring the financial activity and related compliance with laws and regulations of its subgrantees, especially retention of verifiable records to support reported program results. The second material weakness resulted from the absence of an effective system at the Commission for ensuring subgrantee quality control of accounting and financial reporting activities, and for assessing subgrantees' systems for internal controls to safeguard assets, produce reliable financial reports, and comply with applicable Federal laws and regulations.

Because of the findings reported above, the scope of the audit work was not sufficient to enable the auditors to express an opinion on the Commission's Schedules of Award Costs. This disclaimer resulted from the Commission's lack of controls over financial reporting and compliance, the significance of the questioned costs identified in relation to the total claimed costs, and the nature of other report findings.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the Michigan Community Service Commission (OIG Audit Report Number 02-14)***

The Office of Inspector General contracted with Cotton and Company to audit Corporation grants to the Michigan Commission for AmeriCorps, Learn and Serve, Program Development and Training, Promise Fellows, Disability, Make a Difference Day and Administrative costs from October 1, 1997, through March 31, 2001. The Commission had claimed costs of \$13,823,399. The auditors questioned \$55,817 for allowability and \$253,025 for support, or approximately 2.2 percent of the total claimed costs. Costs questioned for allowability represent amounts for which documentation shows that recorded costs were expended in violation of regulations or specific award conditions or costs that require interpretation by the Corporation regarding allowability. Costs questioned for support require additional documentation to substantiate that they are allowable. The audit concluded that the Schedules of Award Costs present fairly the costs claimed by the Commission, except for the questioned and unsupported costs identified in the report.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the Alaska State Community Service Commission (OIG Audit Report Number 02-16)***

The Office of Inspector General engaged L. G. Birnbaum and Company to audit Corporation grants to the Alaska State Community Service Commission for AmeriCorps, Education Awards, Program Development and Training, Make a Difference Day and Administrative costs from October 1, 1997, through December 31, 2001. During this period, the Commission received approximately \$4.2 million in funding authority from the Corporation and had approximately \$3.9 million in claimed costs. The auditors identified questioned costs of \$127,818, an amount which represents approximately three (3) percent of the claimed costs. The audit identified two (2) material weaknesses relating to the reconciliation of amounts drawn down from the Department of Health and Human Services with the Commission's financial records and the Commission's practice of reporting



reimbursements and advances to AmeriCorps subrecipients as costs rather than reporting only costs actually claimed by those subrecipients. The audit concluded that the Schedules of Award Costs present fairly the costs claimed by the Commission, except for the questioned and unsupported costs identified in the report.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the New Jersey Commission on National and Community Service (OIG Audit Report Number 02-17)***

The Office of Inspector General contracted with L. G. Birnbaum and Company to audit Corporation grants to the New Jersey Commission on National and Community Service for AmeriCorps, Program Development and Training, and Administration costs from January 1, 1994, through September 30, 2001. During this period, the Commission received approximately \$39 million in funding authority from the Corporation and had approximately \$31 million in claimed costs. The auditors identified questioned costs of \$3.5 million, an amount representing approximately twelve (12) percent of the claimed costs. The audit identified six (6) material weaknesses in the following areas: (1) the Commission did not maintain an adequate financial system as required in various grant provisions; (2) the Commission was unable to track matching requirements on Corporation grants to actual tracking expenditures on a timely basis; (3) accounting records were missing significant amounts of supporting source documentation; (4) inefficient cash management procedures resulted in excess cash on hand at both the Commission and subgrantee levels; (5) reconciliations of Commission drawdowns to actual costs were not performed on a timely basis; and (6) a second-tier subgrantee did not receive full payment for all eligible expenses.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the New Hampshire Commission on National and Community Service (OIG Audit Report Number 02-20)***

The Office of Inspector General engaged KPMG LLP to audit Corporation grants to the New Hampshire Commission and Volunteer NH! from September 1, 1997, through December 31, 2001. Since the Commission did not have an adequate system in place during the audit period to monitor its subgrantees' financial and programmatic activities and some of the subgrantees failed to maintain adequate accounting and/or program files, the scope of the audit work was insufficient to enable the auditors to express an opinion on the accuracy of the Commission's Schedules of Award Costs. The report explained that this disclaimer resulted from the lack of controls over financial reporting and compliance, the significance of the questioned costs in relation to total claimed costs, and the nature of other report findings. The report identified two (2) material weaknesses. The first concerned grant and program management while the second related to financial management and reporting. The report questioned \$2,979,921, an amount that is approximately 57.1 percent of the claimed Federal costs from 1997 through 2001. The inability of the Commission and its subgrantees to provide supporting hard copy or electronic evidence concerning financial and other grant-related activities during the audit field work generated a significant portion of the questioned costs.

***Incurred Cost Audit of Corporation for National and Community Service Grants Awarded to the Alabama Governor's Office on National and Community Service (OIG Audit Report Number 02-21)***

The Office of Inspector General retained KPMG LLP to audit Corporation grants to the Alabama Commission and its subgrantees for the period from January 1, 1997, through December 31, 2001, for AmeriCorps, Promise Fellows, Administration, and Program Development and Training programs. The auditors identified questioned costs of \$780,999 (approximately fourteen (14) percent) out of claimed costs of \$5,668,755. The audit report expressed a disclaimer of opinion on the Commission's Schedules of Award Costs due to the lack of controls over financial reporting and compliance, as well as the nature of the findings identified. The audit report also identified a number of matters which

require corrective action relating to internal control over financial reporting. The report concluded that adequate procedures for monitoring the financial activity and compliance with laws and regulations of the Commission's subgrantees were not in place, and that the Commission did not have an effective system for ensuring quality control of financial reporting.

### ***Grants Awarded to Entities Other Than State Commissions***

#### ***Pre-Audit Survey of the Retired Senior Volunteer Program of Bergen County Inc., Grant Number 340A047-20 (OIG Audit Report Number 02-24)***

In response to a management suggestion, OIG completed a pre-audit survey of the Retired Senior Volunteer Program of Bergen County Inc., Grant Number 340A047-20. The scope of this pre-audit survey was to assess the grant award and information contained in reports of site monitoring visits available at the Corporation's headquarters and at the State office, as well as grantee compliance with requirements for fiscal reporting. Based on the results of the survey work, OIG will proceed with an incurred cost audit of this grant for calendar years 2000 and 2001.

#### ***Pre-Audit Survey of the Navajo Nation Foster Grandparent Program, Grant Number 339W023-21 (OIG Audit Report Number 02-25)***

In response to a management recommendation, OIG completed a pre-audit survey of the Navajo Nation Foster Grandparent Program, Grant Number 339W023-21. The scope of this pre-audit survey was to assess the grant award and information contained in reports of site monitoring visits available at the Corporation's headquarters, and at the State office, as well as grantee compliance with requirements for fiscal reporting. Based on the results of our survey work, OIG will proceed with an incurred cost audit of the grant project from April 1, 2001, through March 31, 2002.

#### ***Pre-Audit Survey of the Points of Light Foundation, Grant Numbers 01POLDC002 and 01POLDC003 (OIG Audit Report Number 02-26)***

The Office of Inspector General completed a pre-audit survey of the Points of Light Foundation, Grant Numbers 01POLDC002 and 01POLDC003. The scope of this pre-audit survey was to assess the grant award information contained in reports of site monitoring visits, as well as the Corporation's monitoring of the grantee's fiscal activity. Based on the results of our survey work, OIG will proceed with a review of the audit work performed on internal control and compliance requirements in accordance with OMB Circular A-133. OIG will also conduct a limited scope audit of the Corporation's cooperative agreement with Points of Light Foundation, Grant Number 01POLDC002.

#### ***Pre-Audit Survey of the Parents as Teachers National Center, Inc., Grant Number 01SPHMO004 (OIG Audit Report Number 02-27)***

The Office of Inspector General completed a pre-audit survey of the Parents as Teachers National Center, Inc., Grant Number 01SPHMO004. The scope of this pre-audit survey was to assess the grant award and information contained in reports of site monitoring visits, as well as the Corporation's monitoring of the grantee's fiscal activity. Based on the results of our survey work, OIG will proceed with an incurred cost audit for the period from April 1, 2001, through June 30, 2002.

#### ***Pre-Audit Survey of the Boys & Girls Clubs of America, Grant Number 01SPHGA002 (OIG Audit Report Number 02-28)***

The Office of Inspector General completed a pre-audit survey of the Boys & Girls Clubs of America, Grant Number 01SPHGA002. The scope of this pre-audit survey was to assess the grant award and information contained in reports of site monitoring visits, as well as the Corporation's monitoring of the grantee's fiscal activity. Based on the results of our survey work, OIG will proceed with a review

to compare costs submitted on the Financial Status Reports to the grantee's books and to evaluate invoices that the grantee's subcontractor submitted.

***Pre-Audit Survey of Communities in Schools, Inc., Grant Number 01SPHVA003 (OIG Audit Report Number 02-29)***

The Office of Inspector General completed a pre-audit survey of Communities in Schools, Inc., Grant Number 01SPHVA003. The scope of this pre-audit survey was to assess the use of grant funds, and information contained in reports of site visits, as well as the Corporation's monitoring of the grantee's fiscal activity. Based on the results of our survey work, OIG will proceed with an incurred cost audit of the program from December 1, 2000, through May 31, 2002.

***Pre-Audit Survey of America's Promise – The Alliance for Youth, Grant Number 01SPHVA001 (OIG Audit Report Number 02-30)***

The Office of Inspector General completed a pre-audit survey of America's Promise – The Alliance for Youth, Grant Number 01SPHVA001. The scope of this pre-audit survey was to assess the grant award and information contained in reports of site monitoring visits, as well as the Corporation's monitoring of the grantee's fiscal activity. Based on the results of our survey work, OIG will proceed with an incurred cost audit of the grant project from May 1, 2001, through June 30, 2002.

***Pre-Audit Survey of Youth Life Foundation, Grant Number 01SPHDC005 (OIG Audit Report Number 02-34)***

The Office of Inspector General completed a pre-audit survey of Youth Life Foundation, Grant Number 01SPHDC005. The scope of this pre-audit survey was to assess the use of grant funds and information contained in reports of site monitoring visits, as well as the Corporation's monitoring of the grantee's fiscal activity. Based on the results of our survey work, OIG will proceed with an incurred cost audit of the grant for calendar year 2002.

## ***INFORMATION SYSTEMS***

***OIG Letter Report Regarding Limited Network Security Assessment Testing (OIG Audit Report Number 02-23)***

The Office of Inspector General engaged KPMG LLP to conduct limited follow-up penetration testing on selected services of the local area network at the Corporation's headquarters in an effort to evaluate the results of testing conducted in the previous year. In past testing, KPMG evaluators identified some indications that malicious software might be present on four (4) of the Corporation's servers. The results of recent testing, conducted in April 2002, determined that the indicators that were previously noted were "false-positives," and that additional security measures were not necessary.

***OIG Audit Report Regarding Corporation for National and Community Service Evaluation of Information Systems Pursuant to the Government Information Security Reform Act (OIG Audit Report Number 02-35)***

In response to the requirements of the Government Information Security Reform Act and the implementation of that statute by the Office of Management and Budget, OIG engaged KPMG LLP to conduct a performance audit of the Corporation's information security program for Momentum (the Corporation's financial management system), SPAN (the System for Programs, Agreements, and National Service Participants), and the Corporation's local and wide area networks. This year's evaluation showed that the Corporation has made a few modest improvements in its security policies

and procedures documentation, but has continued to place its primary emphasis on the operational aspects of maintaining information security and implementing e-Grants, a major new application system.

## **AUDIT RESOLUTION**

The Corporation's audit resolution process essentially consists of four (4) steps. After OIG issues an audit report, the Corporation normally issues a Proposed Management Decision (PMD) responding to the report's findings and recommendations generally not more than five (5) months after the final report is issued. If OIG disagrees with management's proposed corrective actions, OIG submits written comments within thirty (30) days of receiving the PMD. Not more than six (6) months after an audit report is issued, the Corporation's audit resolution policy requires that the Chief Financial Officer respond to the audit with a Management Decision (MD) describing approved corrective actions and a timetable for implementing them. Final action on corrective measures must be completed within twelve (12) months of the audit report's publication. Management subsequently transmits a Notification of Final Action when all corrective measures have been completed and the responsible management official has verified their accomplishment. At this point, management considers the audit report to be closed.

During the period April to September 2002, Corporation and OIG representatives met periodically to review open audit recommendations and determine appropriate actions to resolve recommendations, particularly from audit reports that were issued more than two (2) years ago. As a result of these meetings, audit resolution procedures have been streamlined and focused on current operations.

### **Management Decisions**

During this semiannual reporting period, the Corporation notified OIG of two (2) proposed management decisions. The Office of Inspector General concurred with both decisions.

- Audit Report 01-05, *Audit of Corporation for National and Community Service Grants Awarded to the Delaware Community Service Commission*
- Audit Report 02-01, *Audit of the Corporation for National and Community Service's Fiscal Year 2001 Financial Statements*

### **Notices of Final Action**

The Office of Inspector General has received and concurred in the following Notices of Final Actions. Management has reported that its corrective actions in response to these audits have been completed. The audits are now closed.

- Audit Report 99-18, *Audit of Corporation for National and Community Service Contract No. 97-743-1001 with GS Tech, Inc.*
- Audit Report 00-06, *Pre-Audit Survey Report of the Delaware Community Service Commission*
- Audit Report 01-21, *Pre-Audit Survey of the Connecticut Commission on National and Community Service*
- Audit Report 01-24, *Pre-Audit Survey of the Massachusetts Service Alliance*

- *Audit Report 01-34, Review of the Corporation for National and Community Service's Network and Security Plan*
- *Audit Report 01-35, Review of the Corporation for National and Community Service's System Development Life Cycle Methodology*
- *Audit Report 02-01, Audit of the Corporation for National and Community Service's Fiscal Year 2001 Financial Statements*
- *Audit Report 02-22, Assessment of Project Risks Related to the Corporation's Development of a Grants Management System*

**AUDIT REPORTS ISSUED DURING THE PERIOD  
APRIL 1, 2002 THROUGH SEPTEMBER 30, 2002**

Report Number	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
<i>(Dollars in thousands)</i>				
02-02	7/1/02	<i>Recommended Improvements to the Corporation's Internal Controls Fiscal Year 2001 - Management Letter</i>	N/A	N/A
02-09	8/14/02	<i>Incurred Cost Audit of Grants Awarded to the Washington Commission for National and Community Service</i>	\$ 1,443	\$ 1,069
02-10	4/18/02	<i>Incurred Cost Audit of Grants Awarded to the Kentucky Commission on Community Volunteerism and Service</i>	5,588	3,859
02-14	9/30/02	<i>Incurred Cost Audit of Grants Awarded to the Michigan Community Service Commission</i>	309	253
02-16	9/26/02	<i>Incurred Cost Audit of Grants Awarded to the Alaska State Community Service Commission</i>	128	82
02-17	9/30/02	<i>Incurred Cost Audit of Grants Awarded to the New Jersey Commission on National and Community Service</i>	3,540	1,761
02-20	8/2/02	<i>Incurred Cost Audit of Grants Awarded to the New Hampshire Commission on National and Community Service</i>	2,980	1,594
02-21	9/30/02	<i>Incurred Cost Audit of Grants Awarded to the Alabama Governor's Office on National and Community Service</i>	781	764
02-23	4/25/02	<i>OIG Letter Report Regarding Limited Network Security Assessment Testing</i>	N/A	N/A
02-24	6/14/02	<i>Pre-Audit Survey of the RSVP of Bergen County Inc., Grant Number 340A047-20</i>	N/A	N/A
02-25	6/14/02	<i>Pre-Audit Survey of the Navajo Nation Foster Grandparent Program, Grant Number 339W023-21</i>	N/A	N/A
02-26	6/21/02	<i>Pre-Audit Survey of the Points of Light Foundation, Grant Numbers 01POLDC002 and 01POLDC003</i>	N/A	N/A

**AUDIT REPORTS ISSUED DURING THE PERIOD  
APRIL 1, 2002 THROUGH SEPTEMBER 30, 2002**

Report Number	Issue Date	Report Name	Federal Dollars Questioned	Federal Dollars Unsupported
<i>(Dollars in thousands)</i>				
02-27	6/26/02	<i>Pre-Audit Survey of the Parents as Teachers National Center, Inc., Grant Number 01SPHMO004</i>	N/A	N/A
02-28	7/3/02	<i>Pre-Audit Survey of the Boys &amp; Girls Clubs of America, Grant Number 01SPHGA002</i>	N/A	N/A
02-29	7/26/02	<i>Pre-Audit Survey of Communities in Schools, Inc., Grant Number 01SPHVA003</i>	N/A	N/A
02-30	7/26/02	<i>Pre-Audit Survey of America's Promise - The Alliance for Youth, Grant Number 01SPHVA001</i>	N/A	N/A
02-34	7/26/02	<i>Pre-Audit Survey of Youth Life Foundation, Grant Number 01SPHDC005</i>	N/A	N/A
02-35	9/16/02	<i>OIG Audit Report Regarding Corporation for National and Community Service Evaluation of Information Systems Pursuant to the Government Information Security Reform Act</i>	N/A	N/A
<b>TOTAL</b>			<b><u>\$ 14,769</u></b>	<b><u>\$ 9,382</u></b>

N/A means not applicable.

# INVESTIGATIONS SECTION

At the beginning of this reporting period there were eighteen (18) investigative actions. During this reporting period nineteen (19) investigative actions were commenced and twenty (20) were closed. Seventeen (17) investigative actions were pending at the end of the reporting period.

## HIGHLIGHTS OF INVESTIGATIONS CLOSED DURING THIS REPORTING PERIOD

### ***Fiscal Agent Embezzles \$750,000 – Pleads Guilty – Incarceration and Restitution Ordered (OIG Report of Investigation 01-023)***

The Office of Inspector General completed an investigation worked jointly with the Federal Bureau of Investigations (FBI), with the FBI as the lead agency. The investigation disclosed evidence that an employee of a firm acting as the fiscal agent for several non-profit agencies, including a Corporation RSVP grantee, embezzled over \$750,000 from his company. An audit determined that \$3,172.77 of the stolen funds were RSVP funds paid to the grantee by the Corporation. Following a guilty plea in Federal court, the fiscal agent's employee was sentenced to thirty (30) months confinement, thirty-six (36) months probation, required to pay \$756,698.50 in restitution and assessed \$100 in court costs.

### ***Prosecution Declined in Alleged Misapplication – Debarment Recommended (OIG Report of Investigation 01-068)***

The Office of Inspector General completed an investigation opened when a Corporation employee reported that a Corporation grantee may have submitted false Financial Status Reports and may have misapplied funds from a Corporation grant. The Office of Inspector General reviewed the grantee's financial files and noted numerous discrepancies indicating the grantee may have misapplied Federal funds and may have prepared and submitted false Financial Status Reports. The Office of Inspector General interviewed the grantee's finance director and the grantee's program director and both admitted using Federal funds for non-Federal expenses for a nine (9) month period. It appeared the program director did not learn of the misapplication of Federal funds until after it was accomplished. Approximately \$190,000 may have been misapplied. The Corporation terminated the grant. The U.S. Attorney's Office in Washington, DC, initially accepted this matter for prosecution, then declined to pursue it locally, suggesting it be referred to the U.S. Attorney's Office in Atlanta, Georgia. The U.S. Attorney's office in Atlanta declined this matter for criminal and civil prosecution because there was no indication that anyone personally benefited from the misapplication of Federal funds. The Office of Inspector General referred this matter to Corporation management and recommended they consider debarring the grantee's finance director from participating in Federal procurement and non-procurement programs for a period of time. The proposal to debar is pending.

### ***Inappropriate Service Hours to be Deducted (OIG Report of Investigation 01-071)***

The Office of Inspector General completed an investigation opened when a State Commission reported that it appeared that the management of a Commission-funded AmeriCorps program allowed its AmeriCorps members to falsify their time sheets, recording hours for which no service was performed, and allowed members to perform clerical and administrative tasks. Our investigation found no evidence that the AmeriCorps members falsified their time sheets; however, the subgrantee allowed members to earn service hours for lunch, for performing administrative tasks, and for participating in fundraising activities. Material obtained during this investigation was provided to the



State Commission and the Corporation program officer for their use in adjusting member service hours as necessary.

***Corporation Employee Admits Preparing and Submitting Fraudulent Time Sheets (OIG Report of Investigation 02-023)***

An investigation opened when OIG received information indicating a Corporation employee might have submitted fraudulent time sheets was also completed. Evidence was found indicating that the employee prepared two (2) time sheets for the pay period for March 10-23, 2002. The employee submitted one (1) time sheet via facsimile to the Corporation for calculation of payment. This time sheet listed eighty (80) regular hours and twenty-three (23) hours of compensatory time. The employee's supervisor's signature on this time sheet was forged. When questions were asked that caused the employee to believe the first time sheet was being questioned, the employee faxed a second time sheet to the Corporation. This second time sheet indicated that the employee worked forty-six (46) regular hours and used thirty-four (34) hours of unpaid leave, which was an accurate accounting of the employee's hours. A second supervisor's signature was forged on the second time sheet. During an interview conducted by OIG, the employee admitted forging the signatures and submitting the fraudulent time sheets for payment. The U.S. Attorney's Office in Washington, DC, reviewed this matter for prosecution and entered into a pretrial diversion agreement with the employee, agreeing to forego prosecution if the employee met the conditions of the agreement, which included performing forty (40) hours of community service. The Office of Inspector General provided management the information obtained during this investigation for their use in determining if administrative action should be taken and management terminated the employee.

***Corporation Employee Misuses Government Travel Card (OIG Report of Investigation (02-011)***

The Office of Inspector General completed an investigation opened when Corporation management reported that a Corporation employee might have used her government travel card for personal use. The Office of Inspector General review found evidence indicating the employee used her government travel card to make one (1) ATM withdrawal that was not associated with government travel. The review also found evidence that the employee's former roommate, who was not a Corporation employee, may have used the employee's government travel card, without the employee's permission, to charge gasoline and a motel room. Corporation management was provided the necessary reports and documents for their use in deciding what action to take against the employee. The Corporation notified OIG that the employee was verbally counseled.

<b>SUMMARY OF INVESTIGATIONS</b>	
<b>Opened and Closed</b>	
Number of Cases Open at Beginning of Reporting Period	18
Number of New Cases Opened During this Reporting Period	19
Number of Cases Closed During this Period With Significant Findings	6
Number of Cases Closed During this Period With No Significant Findings	14
Total Cases Closed this Reporting Period	20
Number of Cases Open at End of Reporting Period	17
<b>Referred</b>	
Number of Cases Referred for Prosecution During this Reporting Period	2
Number of Cases Accepted for Prosecution During this Reporting Period	1
Number of Cases Declined for Prosecution During this Reporting Period	0
Number of Cases Pending Prosecutorial Review	1

# REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a)(2) of the Inspector General Act requires OIG to review and make recommendations about existing or proposed legislation and regulations relating to the Corporation's programs and operations. The recommendations are to address the impact of legislation and regulations on the economy and efficiency of the administration of Corporation programs and operations. The Office of Inspector General is also to make recommendations concerning the impact of legislation and regulations on the prevention and detection of fraud, waste and abuse in Corporation programs and operations.

## *Status of Efforts to Develop an Automated Grants Management System*

In providing the Corporation's funding for the past two (2) fiscal years as part of the Departments of Veterans Affairs and Housing and Urban Development, and Independent Agencies Appropriations Acts (Public Law 106-377 and Public Law 107-73), Congress specified that not less than \$2 million dollars in each fiscal year should be used for the acquisition of a cost accounting system, establishment of a grants management system, and creation of a central archives. The Corporation has implemented a new cost accounting system, and instituted policies and plans for creation of a central archive. In April 2003, the Corporation expects to complete systems development and testing of an automated grants management system capable of providing comprehensive financial information for all of its grants and cooperative agreements.

## *Regulations*

The Office of Inspector General reviewed and concurred with revisions the Corporation made to certain portions of AmeriCorps grant regulations contained in 45 C.F.R. Chapter XXV. The revised rule became final on August 8, 2002. Among the more significant changes are that "religious institutions" are explicitly identified as eligible grant recipients; "public safety" is added as an additional grant purpose; AmeriCorps participants may now perform "clerical and research" activities under a grant if supporting a "direct benefit" to the community; and the AmeriCorps education award may now be used to pay for costs associated with continuing education and correspondence courses, expenses related to a student's disabilities, and costs associated with work performed by a student in a cooperative education program. In addition, the regulatory changes clarified eligibility and documentation requirements to demonstrate that an AmeriCorps member graduated from high school or an equivalent program, allowing the individual to self-certify the member's educational level under penalty of law. The changes also resolved grantee questions concerning proof of United States citizenship by clarifying that Form I-9 from the Immigration and Naturalization Service is not acceptable proof that an AmeriCorps member is a United States citizen. These changes will facilitate determinations during audits of AmeriCorps programs concerning whether members meet basic eligibility requirements.

# TABLES

<b>TABLE I - INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS</b>				
		<b>Federal Costs</b>		
		<b>Number</b>	<b>Questioned</b>	<b>Unsupported</b>
		<i>(Dollars in thousands)</i>		
1.	Where no management decision had been made by the commencement of the reporting period	10	\$ 21,088	\$ 13,471
2.	Which were issued during the reporting period	<u>7</u>	<u>14,769</u>	<u>9,364</u>
3.	Subtotals (1 plus 2)	17	35,857	22,835
4.	Where a management decision was made during the reporting period:	2		
	(i) dollar value of disallowed costs		30	11
	(ii) dollar value of costs not disallowed	—	<u>390</u>	<u>378</u>
5.	Where no management decision had been made by the end of the reporting period (3 minus 4)	<u>15</u>	<u>\$ 35,437</u>	<u>\$ 22,446</u>
6.	Reports with questioned costs for which no management decision was made within six (6) months of issuance	8	\$ 20,666	\$ 13,082

**TABLE II - INSPECTOR GENERAL REPORTS WITH  
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<b>Number</b>	<b>Dollar Value</b> <i>(Dollars in thousands)</i>
A. Where no management decision had been made by the commencement of the reporting period	1	\$62
B. Which were issued during the reporting period	1*	\$1,545
C. Where a management decision was made during the reporting period	0	\$0
(i) dollar value of recommendations that were agreed to by management:		
based on proposed management action	0	\$0
based on proposed legislative action	0	\$0
(ii) dollar value of recommendations that were not agreed by management		
D. Where no management decision has been made by the end of the reporting period	2	\$1,607
E. Reports for which no management decision was made within six months of issuance	1	\$62
*OIG Report 02-17, <i>Audit of CNCS Grants Awarded to New Jersey Commission on National and Community Service</i> , page 55, reported an instance where excess draw downs by the grantee could have been used on other worthwhile Corporation projects.		

**TABLE III - SUMMARY OF AUDITS WITH OVERDUE MANAGEMENT DECISIONS**

<b>Report Number</b>	<b>Title</b>	<b>Federal Dollars Questioned</b>	<b>Management Decision Due*</b>	<b>Status as of September 30, 2002</b>
99-09	<i>Audit of Corporation for National Service Contract No. 95-743-1009 with Biospherics, Inc.</i>	\$ 739,458	11/02/99	<i>Management has not resolved the questioned costs.</i>
99-10	<i>Audit of Corporation for National and Community Service Contract No. 95-001 with TvT Associates, Inc.</i>	296,665	01/29/00	<i>Management has not resolved the questioned costs.</i>
00-21	<i>Audit of the Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administration Systems, Inc.</i>	7,379,847	07/05/00	<i>Management has not resolved the questioned costs.</i>
00-22	<i>Audit of Corporation for National and Community Service Contract No. CNCS 94-002 with Encore Management Corporation</i>	1,102,982	03/20/01	<i>Management has not resolved the questioned costs.</i>
01-04	<i>Incurred Cost Audit of Grants Awarded to the Oregon Community Service Commission</i>	2,556,570	03/26/02	<i>A Proposed Management Decision has not been provided to OIG</i>
02-03	<i>Audit of Corporation for National and Community Service Grant Number 97LHEDC001 to American Association of Community Colleges</i>	72,542	06/28/02	<i>A Proposed Management Decision has not been provided to OIG</i>
02-08	<i>Audit of Corporation for National and Community Service Grants Awarded to North Carolina Commission on Volunteerism and Community Service</i>	614,235	08/08/02	<i>A Proposed Management Decision has not been provided to OIG</i>
02-11	<i>Incurred Cost Audit of Grants Awarded to the Missouri Community Service Commission</i>	<u>7,903,629</u>	08/20/02	<i>A Proposed Management Decision has not been provided to OIG</i>
<b>Total</b>		<b><u>\$ 20,665,928</u></b>		

\*Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within six (6) months of the issuance of the final report and corrective actions completed within one (1) year.

**TABLE IV - REPORTS DESCRIBED IN PRIOR SEMIANNUAL  
REPORTS WITHOUT FINAL ACTION**

<b>Report Number</b>	<b>Title</b>	<b>Date Issued</b>	<b>Final Action Due*</b>
99-09	<i>Audit of Corporation for National Service Contract No. 95-743-1009 with Biospherics, Inc.</i>	05/06/99	05/06/00
99-10	<i>Audit of Corporation for National and Community Service Contract No. 95-001 with TvT Associates, Inc.</i>	08/02/99	08/02/00
00-21	<i>Audit of Corporation for National and Community Service Contract No. 95-743-1005 with Outsourced Administrative Systems, Inc.</i>	01/06/00	01/06/01
00-22	<i>Audit of Corporation for National and Community Service Contract No. 94-002 with Encore Management Corporation</i>	09/21/00	09/21/01
00-24	<i>Pre-Audit Survey Report of the Alaska State Community Service Commission</i>	08/08/00	08/08/01
01-04	<i>Incurred Cost Audit of Grants Awarded to the Oregon Community Service Commission</i>	09/27/02	09/27/02
01-05	<i>Audit of Corporation of National and Community Service Grants to the Delaware Community Service Commission</i>	01/11/01	01/11/02
01-25	<i>Pre-Audit Survey of the Colorado Governor's Commission on Community Service</i>	04/27/01	04/27/02
01-28	<i>Audit of Controls Over the Corporation for National and Community Service's Key Performance Indicators and Accomplishments Statistics</i>	08/02/01	08/02/02
01-31	<i>Report on the Review of the Corporation for National and Community Service National Direct Grant Application Review Process</i>	07/09/01	07/09/02

\* Under section 6009 of the Federal Acquisition Streamlining Act of 1994, as amended, a final management decision must be made within six (6) months of the issuance of the final report and corrective actions completed within one (1) year.

# FISCAL YEAR 2002 PERFORMANCE INFORMATION

## *MISSION STATEMENT*

The Corporation's Office of Inspector General is authorized by the Inspector General Act of 1978, as amended, to –

- Conduct independent and objective audits and investigations.
- Promote organizational economy, efficiency, and effectiveness.
- Prevent and detect fraud, waste, and abuse.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to Corporation programs and operations.
- Keep the Chief Executive Officer, the Corporation's Board of Directors, and the Congress fully and currently informed of problems in agency programs and operations.

## *STRATEGIC GOALS*

The Office of Inspector General has established the following goals for its operations –

- Identify opportunities for increased economy and efficiency in agency operations; assist management by identifying, recommending, and developing appropriate management reforms.
- Protect the integrity of the Corporation's programs, operations, and financial management by identifying and mitigating existing risks or emerging vulnerabilities that may result from changes in the Corporation's operations, from changing legal and administrative requirements, or from other changes in the environment in which the Corporation operates.
- Carry out the intent of the Government Performance and Results Act (GPRA) by (a) providing the Corporation with objective assessments of the integrity of the systems that it uses to compile performance information and its reliability and (b) changing the focus of OIG audits and other services to focus more on management performance and programmatic outcomes.
- Improve the quality and delivery of OIG work products.



# FY02 PERFORMANCE INFORMATION

## **QUANTITATIVE AUDIT PERFORMANCE MEASURES**

	<u>FISCAL YEAR</u>		
	<u>2001</u> Actual	<u>2002</u> Goal	<u>2002</u> Actual
Number of Reports Issued	28	28	28
Number of Reports Issued Linked to Improving Corporation Management ( <i>OIG Strategic Goal 1</i> )	11	15	6
Number of Recommendations Linked to Goal 1 <sup>(1)</sup>	121	0	33
Number of Reports Issued Linked to Protecting the Integrity of Programs, Operations, and Financial Management ( <i>OIG Strategic Goal 2</i> )	28	28	28
Number of Recommendations Linked to Goal 2			
...to Corporation	143	0	50
...to Grantees	147	0	131
...to Contractors	0	0	0
Number of Reports Issued Linked to Carrying Out The Intent of GPRA ( <i>OIG Strategic Goal 3</i> )	2	1	2
Number of Recommendations Linked to Goal 3	20	0	8
Total Number of Audit Recommendations	290	0	181
Percent of Recommendations Accepted by Corporation	82%	90%	93%

<sup>(1)</sup> The number of recommendations that will be included in a report cannot be predicted.

## *FY02 PERFORMANCE INFORMATION*

<b>AUDIT PERFORMANCE STATISTICS</b>			
	Fiscal Year		
	2000	2001	2002
Number of Audit Reports	38	28	28
Number of Testimonies	2	3	0
Number of Reports Requested by Congressional Staff	7	8	6
Questioned Costs ( <i>dollars in thousands</i> )	\$8,558	\$2,984	\$23,369
Recommendations that Funds be Put to Better Use ( <i>dollars in thousands</i> )	\$0	\$56	\$1,607
<hr/>			
Costs Per Audit Hour	\$61	\$65	\$52
OIG Staff	\$76	\$99	\$96
Contracted Services			
<hr/>			
Timeliness	184 days	187 days	215 days

# *FY02 PERFORMANCE INFORMATION*

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## *INVESTIGATIONS PERFORMANCE INFORMATION*

The basic mission of the OIG investigative section is to lawfully determine as many of the facts as possible surrounding a given incident. The incident under review may include allegations of criminal activity, allegations of non-criminal activity, or allegations that include both criminal activity and non-criminal activity. The basic mission of the investigative element remains unchanged regardless of the nature of the incident: Determine as many facts as possible surrounding a given event. How an allegation is developed, i.e., reactively or pro-actively, has no impact on the basic mission.

What occurs after the initial receipt of a complaint, allegation, or information that results in the development of a complaint or allegation, varies, depending primarily upon whether the matter is criminal or non-criminal, and if criminal, whether or not it is accepted by the Department of Justice for prosecution.

All matters involving evidence of Federal criminal violations are referred to the Department of Justice for a prosecutory decision. This does not mean that all allegations of Federal criminal violations are referred; only those with evidence of a Federal criminal violation are referred, with some exceptions. For example, all allegations of significant fraud and all allegations against certain senior government officials are referred to the Department of Justice without regard to the amount of evidence available at the time the allegations are received. Many of the criminal matters investigated by OIG involving Corporation programs and operations are declined for prosecution by the Department of Justice because of the low dollar amounts involved. The Office of Inspector General has had no declinations of a criminal matter because of our inability to sufficiently develop evidence of criminal misconduct. Some of the referrals that are declined by the Criminal Division of the Department of Justice are accepted by the Civil Division for civil enforcement.

Those matters that are determined to be non-criminal and those matters that have been declined for prosecution or civil enforcement by the Department of Justice (or State prosecutors) are often referred to Corporation management for administrative action. This administrative action might involve suspension or even removal of an employee. Administrative action could also involve a redesign or refinement of a process or system that was identified by our efforts as one that could be improved. When OIG refers such matters to management, we usually request that management provide a brief narrative of what, if any, administrative action was taken as a result of the referral to them.

One other area that deserves mention involves those matters (criminal and non-criminal) that OIG finds did not occur, did not occur as alleged, or were not within our purview. While some of these matters are as important as a founded criminal investigation (and as such are identified and documented separately), the majority are minor and are filed without opening a separate investigative action. Regardless of the severity, each matter requires some degree of preliminary inquiry. The following table presents statistics on OIG's investigative workload.

## *FY02 PERFORMANCE INFORMATION*

	<b>INVESTIGATIONS PERFORMANCE STATISTICS</b>				
	Fiscal Year				
	1998	1999	2000	2001	2002
Investigative Actions Opened	41	46	51	95 <sup>1</sup>	40
Investigative Actions Resolved and Closed	29	29	47	95	56
Average Monthly Caseload	17	25	30	35	24
Investigative Matters Resolved Without Opening a Separate Investigative Action	33	48	37	29	37
Referrals for Prosecution	7	12	14	16	10
Investigative Recoveries <sup>2</sup>	\$9,450	\$142,634	\$308,939	\$55,961	\$1,206,057
Administrative or Management Action Taken	6	10	4	8	25

<sup>1</sup> Forty-five (45) of the ninety-five (95) investigative actions opened during fiscal year 2001 were opened as a direct result of a proactive OIG review of Corporation employees' use of the government travel charge card. The forty-five (45) actions were opened to document the investigation of suspected employee abuse of the government travel cards, namely using the cards for personal benefit, in violation of Corporation policy, Federal regulations, and the Standard of Conduct.

<sup>2</sup> Includes money received by the Corporation or other government agencies as a result of OIG investigations, including joint investigations with another OIG, Federal or State investigative element.

# FY02 PERFORMANCE INFORMATION

## SUMMARY OF OIG OBLIGATIONS AND EXPENDITURES

Fiscal Years 2002 and 2001 <sup>(1)</sup>

	2002 <sup>(2)</sup>	2001 <sup>(3)</sup>
<b>Audits</b>		
Corporation Financial Management	\$ 198,304	\$ 515,283
Grants	812,100	2,132,233
Procurement	0	0
Information Technology	481,849	382,548
Other Audits	4,538	0
Audit Administration <sup>(4)</sup>	462,412	281,026
Investigations <sup>(5)</sup>	481,680	539,896
Administration	1,251,069	1,246,917
<b>Total</b>	<b>\$ 3,691,952</b>	<b>\$ 5,097,903</b>

<sup>(1)</sup> Fiscal years 2001 and 2002 appropriations were for two-year periods, October 1, 2000 to September 30, 2002, and October 1, 2001 to September 2002, respectively.

<sup>(2)</sup> At the end of FY 2001, funds in the amount of \$858,000 were carried over into FY 2002. FY 2002 total includes obligations and expenditures in the amount of \$699,249. The FY 2002 year-end unobligated balance to be carried over into FY 2003 is \$1,302,049.

<sup>(3)</sup> The FY 2000 supplemental appropriation of \$1 million received on July 13, 2000, established under section 178 of the National and Community Service Act of 1990, as amended, was carried over into FY 2001 in support of OIG audits of State Commissions. The grants' total includes obligations in the amount of \$966,392 for State Commission audits under the supplemental appropriation.

<sup>(4)</sup> The increase in FY 2002 audit costs is primarily due to the hiring of three (3) additional audit staff and the increase in the number of audits conducted, therefore, increasing the travel costs.

<sup>(5)</sup> The decrease in FY 2002 investigations costs is due to the full funding of investigative blanket travel orders from the FY 2001 appropriation (two-year obligation authority) for travel activity that occurred in FY 2002.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

**OFFICE OF INSPECTOR GENERAL**

# HOTLINE

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**OIG HOTLINE**

**Corporation for National and Community Service  
1201 New York Avenue NW., Suite 830  
Washington, D.C. 20525**

CORPORATION  
FOR NATIONAL  
★ SERVICE

November 29, 2002

The Honorable Richard Cheney  
President of the Senate  
Washington, DC 20510

The Honorable Dennis Hastert  
Speaker of the House of Representatives  
The Capitol  
Washington, DC 20515

Dear Mr. Vice President and Mr. Speaker:

Enclosed is the Inspector General's Semi-Annual Report to the Congress along with the Corporation's Report on Final Action, as required under Section 5 of the Inspector General Act.

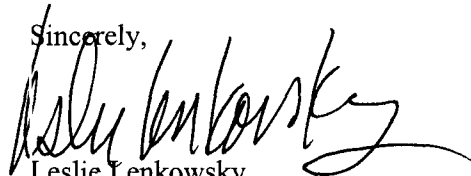
These reports cover the six-month period from April 1, 2002 through September 30, 2002. During this period, the Corporation made management decisions on two audits and completed final action on or closed 19 audits. Subsequent to this period, the Corporation completed corrective action on three additional audits and made a management decision on one.

We are pleased that the Corporation's new Inspector General, Russell George, was confirmed on July 29, 2002, and is now on board. Corporation staff is working closely with Mr. George and his staff and continuing to make progress towards resolving all audits.

We are sending copies of this semi-annual report to interested Congressional committees, the Office of Management and Budget, and the Corporation's Board of Directors. We will also make copies available to others on request.

If you have any questions concerning these reports, please contact me or Russell George, the Corporation's Inspector General.

Sincerely,



Leslie Lenkowsky  
Chief Executive Officer



**TABLE I**  
**ACTION TAKEN ON AUDIT REPORTS**  
**(for the Period April 1, 2002 through September 30, 2002)**

	<u>Number of Reports</u>	<u>Disallowed Costs (\$000)</u>
A. Audit reports with final action not taken by the commencement of the reporting period.	57	
B. Audit reports issued by the OIG during the period	10	
C. Audit reports for which final action was taken during the reporting period <sup>1</sup>	45	
1. Recoveries		
(a) Collections and offsets	4	138
(b) Property in lieu of cash		
(c) Other (reduction of questioned costs)		
2. Write-offs	0	
3. Audits with no disallowed costs	41	
D. Audit reports for which final action was not taken by the end of the reporting period. <sup>2</sup>	22	
E. <hr/> Audit reports for which management decisions were made during or prior to the six-month reporting period and for which final action is underway. <sup>3</sup>	15	

<sup>1</sup> This includes 6 audit reports closed because no corrective action was necessary.

<sup>2</sup> This includes 14 audits for which final action is not due.

<sup>3</sup> Management decisions on 13 of these audits were made in previous reporting periods or are not yet due.



**TABLE II**  
**AUDITS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE**  
**(for the period September 30, 2001 through March 31, 2002)**

	<u>Number of Audit Reports</u>	<u>Dollar value (\$000s)</u>
A. Audit reports with management decisions on which final action had not been taken at the beginning of the period.	0	-
B. Audits which were issued during the period	1	62
C. Total audit reports on which management decisions were made during the period.	0	-
D. Audit reports pending action during the period	1	-
E. Audit reports for which final action was taken during the period	0	-
1. Value of recommendations that were completed	0	-
2. Value of recommendations that management concluded should not or could not be implemented or completed	0	0
3. Total of 1 and 2	0	-
F. Audit reports for which no management decisions were made during the reporting period	1	62

**TABLE III****STATUS OF AUDIT REPORTS WITH MANAGEMENT DECISIONS THAT HAD NO FINAL ACTION WITHIN ONE YEAR OF THE ISSUANCE OF THE REPORT  
(As of November 25, 2002)**

<b><u>Audit Number</u></b>	<b><u>Date Issued</u></b>	<b><u>Title</u></b>	<b><u>Disallowed Costs</u></b>	<b><u>Status of Action/Reason No Final Action Was Taken</u></b>
99-09	5/6/99	Audit of Corporation Contracts with Biopherics, Inc	TBD	The Corporation must complete incurred cost audits to verify the labor hours worked and other direct and indirect costs incurred for fiscal years 1996 – 1998. The estimated completion date of this review is December 15, 2002.
99-10	8/2/99	Audit of Corporation Contracts with TvT, Inc.	\$294,094	The Corporation must complete incurred cost audits to verify labor costs and then negotiate with the contractors an indirect cost rate to apply to those costs. The estimated completion of the cost audits is February 28, 2003.
00-21	1/6/00	Audit of the Corporation's Contract with Outsourced Administrative Systems	TBD	The Corporation is in the process of performing incurred costs audits for fiscal years 1994-1998. The OIG audit had a high percentage of questioned administrative and medical billing costs that is taking a significant amount of time to resolve. The estimated completion date is March 31, 2003.
00-22	9/21/00	Audit of the Corporation's Contract with Encore Management Corp.	TBD	The Corporation is completing Incurred Cost Audits for Fiscal Years 1994-1998. We are going to issue an equitable adjustment in the area of Temporary Labor Costs and modify the contract terms as required. The estimated completion date of the field work is December 6, 2002. We anticipate contractor concurrence with our findings and issuing the Notice of Final Action by December 13, 2002.
00-24	8/8/00	Pre-Audit Survey Report of the Alaska Service Commission	N/A	One finding remains open. Corrective action by the Commission related to the remaining finding is expected by January 2003.
01-04	9/27/02	Incurred Cost Audit of Grants Awarded to the Oregon Community Service Commission		The Oregon Commission must gather documentation from several subgrantees before the Corporation can complete corrective action. Anticipated completion date is January, 2002

<u>Audit Number</u>	<u>Date Issued</u>	<u>Title</u>	<u>Disallowed Costs</u>	<u>Status of Action/Reason No Final Action Was Taken</u>
01-05	1/11/01	Audit of Grants awarded to the Delaware Community Service Commission	\$22,617	The Corporation completed corrective action on this audit in October 2002.
01-25	4/27/01	Pre-Audit Survey of the Colorado Governor's Commission on Community Service	N/A	The Corporation completed corrective action on this audit in October 2002.
01-28	8/2/01	Audit of Controls Over the Corporation for National and Community Service's Key Performance Indicators and Accomplishments Statistics	N/A	The Corporation completed corrective action on this audit in October 2002.
01-31	7/9/01	Report on the Review of the Corporation for National and Community Service National Direct Grant Application Review Process	N/A	Corrective action will be completed on this audit when the Corporation's board completes its review of grant processes and recommendations for revisions to policies and procedures. Recommendations for the board will be completed in May 2003.